

Setting the Stage: The 2007 Farm Bill and the Budget:

A Presentation by

Craig Jagger

Chief Economist
House Committee on Agriculture

for the:

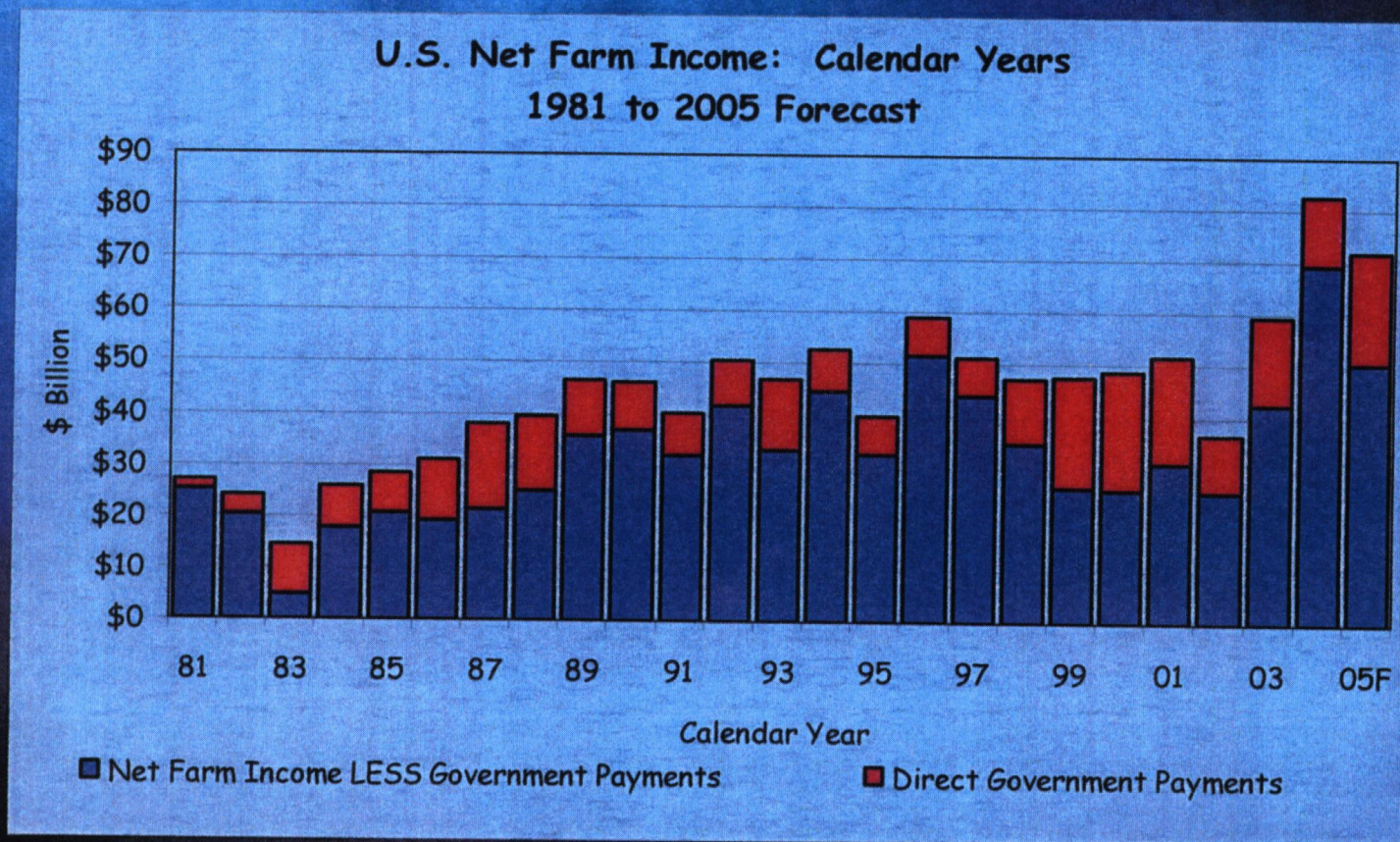
The Farm Foundation Round Table

January 6, 2006

Phoenix, Arizona

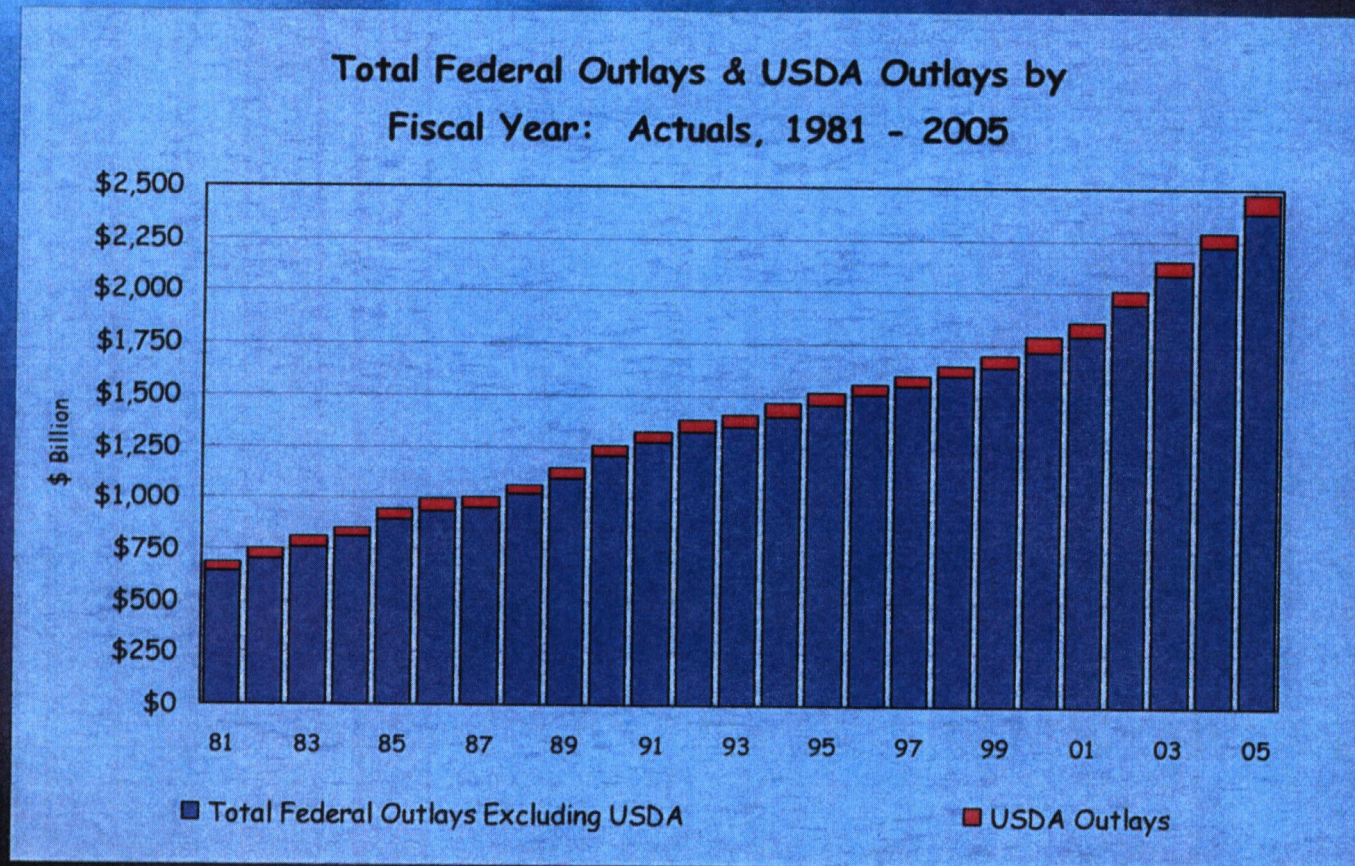
Reminder: Government Payments Continue to Be a Major Contributor to U.S. Net Farm Income (and to Land Values)

Government payments averaged 28% of net farm income over the prior 10 years, 25% over the prior 3 years, and 30% (forecast) for 2005

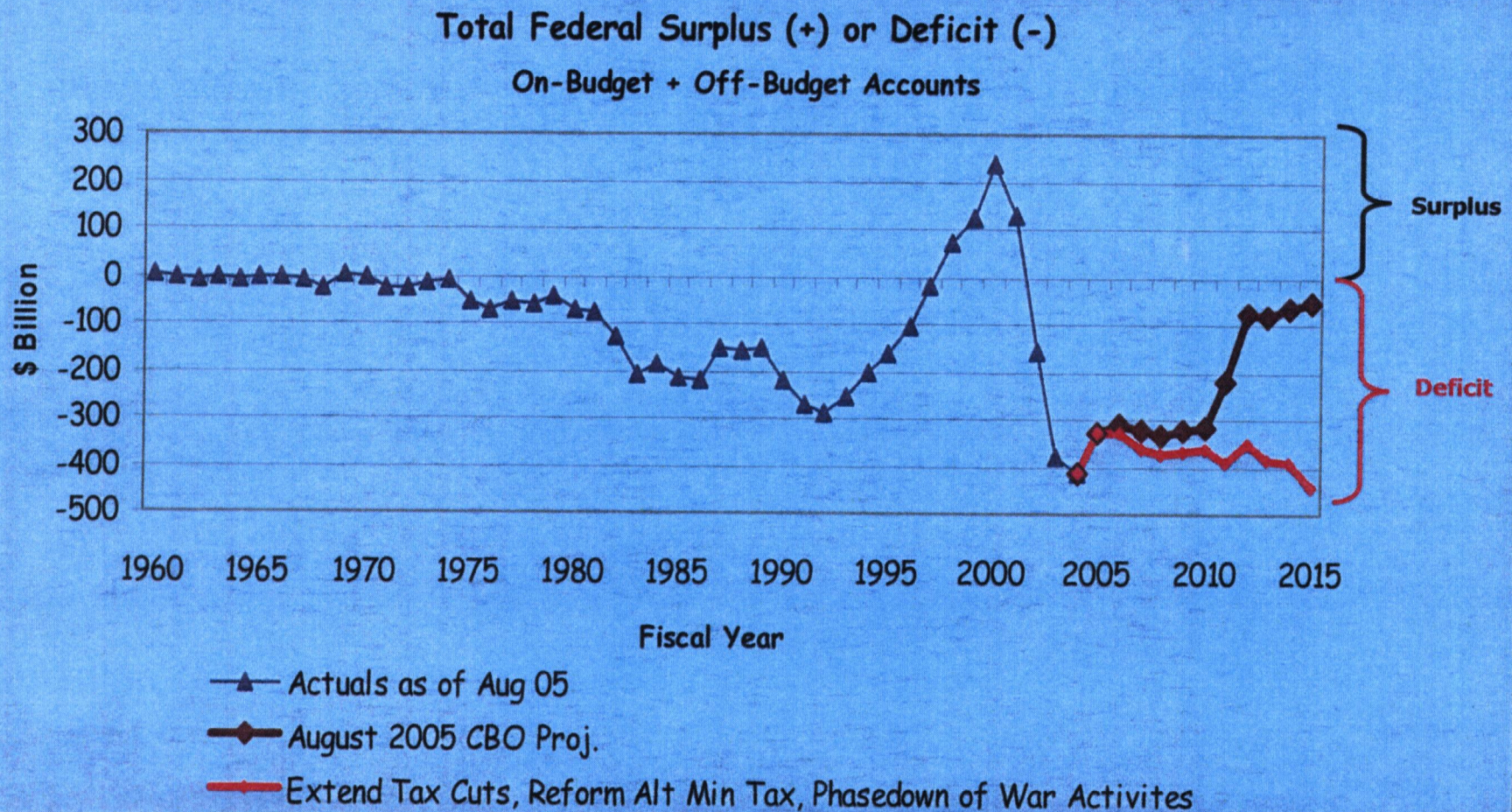


Total Federal Outlays (Nominal \$) Keep Increasing; Reaching \$2.5 Trillion in FY 2005. USDA Programs are a Small Percentage of the Total

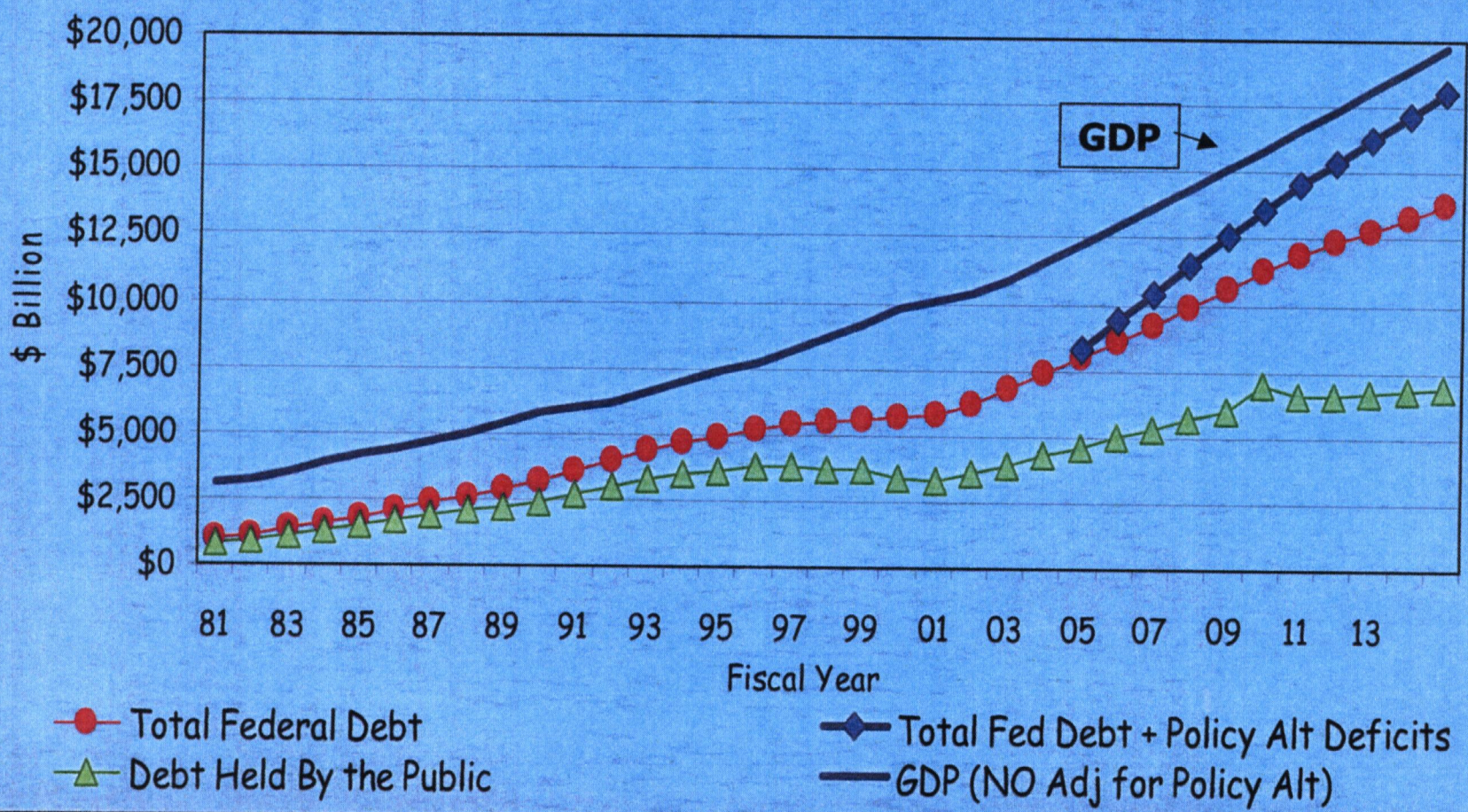
Total USDA Outlays (Including Non-Farm Outlays) Typically
Are 3% to 5% of Total Federal Outlays



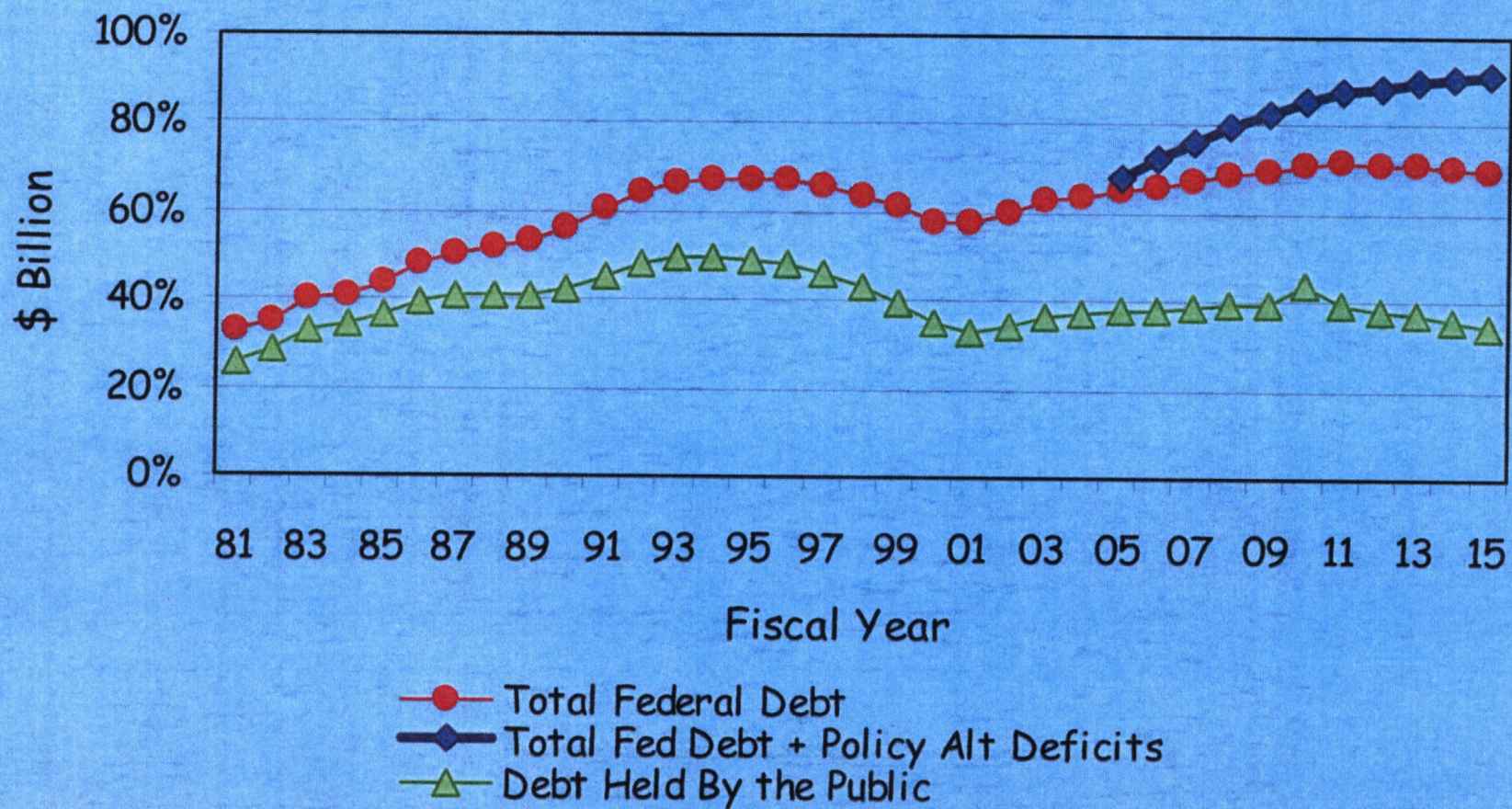
If Current Laws and Policies Continue Without Change (as the CBO Baseline by law must assume) the Annual Federal Deficit is Projected to Decline. Other Policy Assumptions Show it Continuing at High Nominal Dollar Levels.



CBO Projects that Federal Debt (the Sum of Annual Deficits and Surpluses) Will Increase in Nominal Dollars



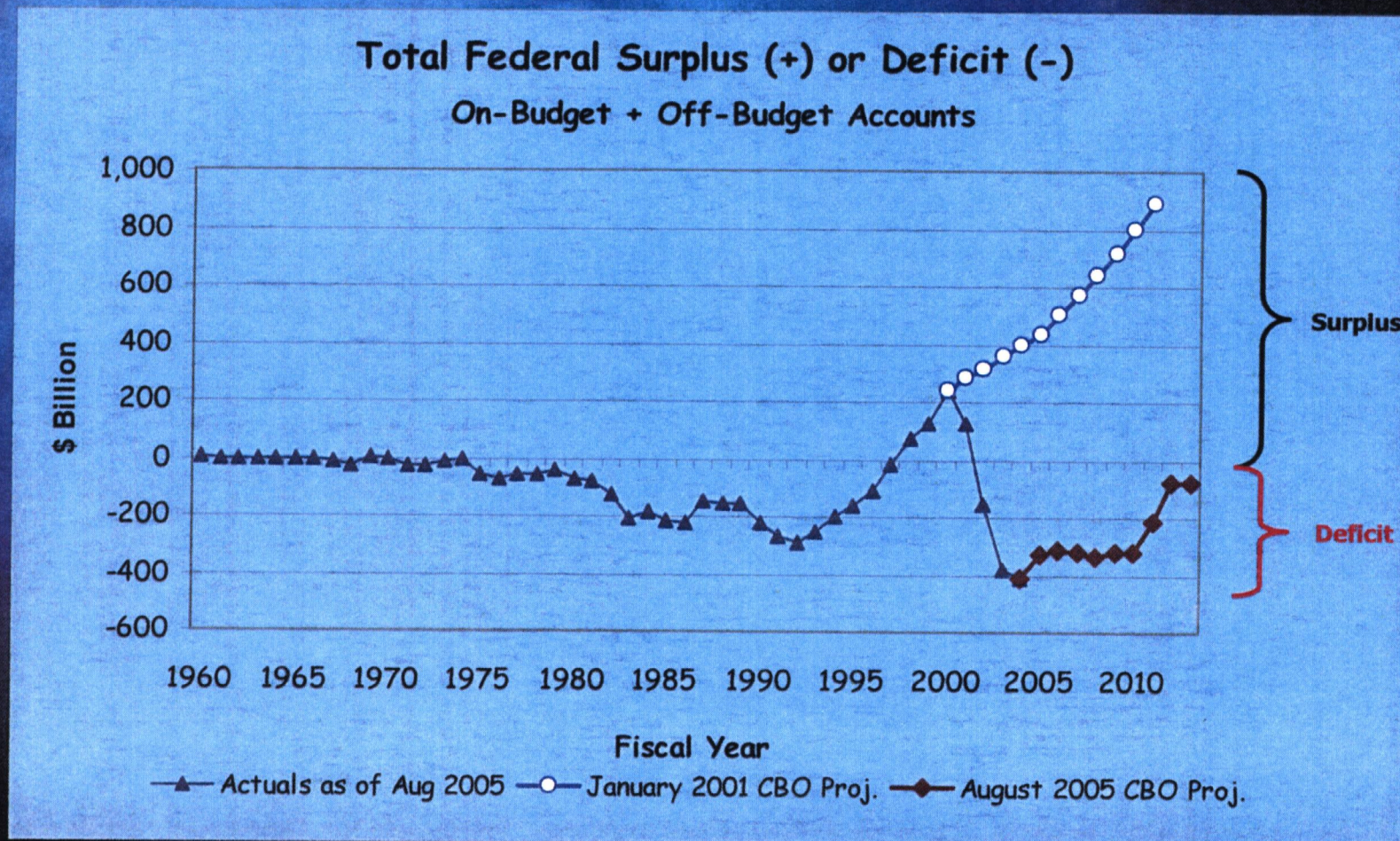
Under the CBO Baseline, Total Federal Debt As a % of GDP is Projected to Be Close to Historical Ranges, (But With Other Policy Assumptions, is Not)



A Recent CBO Study of the Long-Term Budget Outlook (Thru 2050) Concluded That:

- Rising health care costs and an aging population will cause Medicare, Medicaid, and Social Security to claim a sharply increasing share of GDP over the coming decades.
- Even if taxation reached unprecedented levels for the U.S., current spending policies could become financially unsustainable.
- Economic growth is unlikely to bring the nations' long-term fiscal position into balance.
- Addressing problems sooner rather than later will reduce the adjustment costs and will lead to a more equitable distribution of costs across generations.

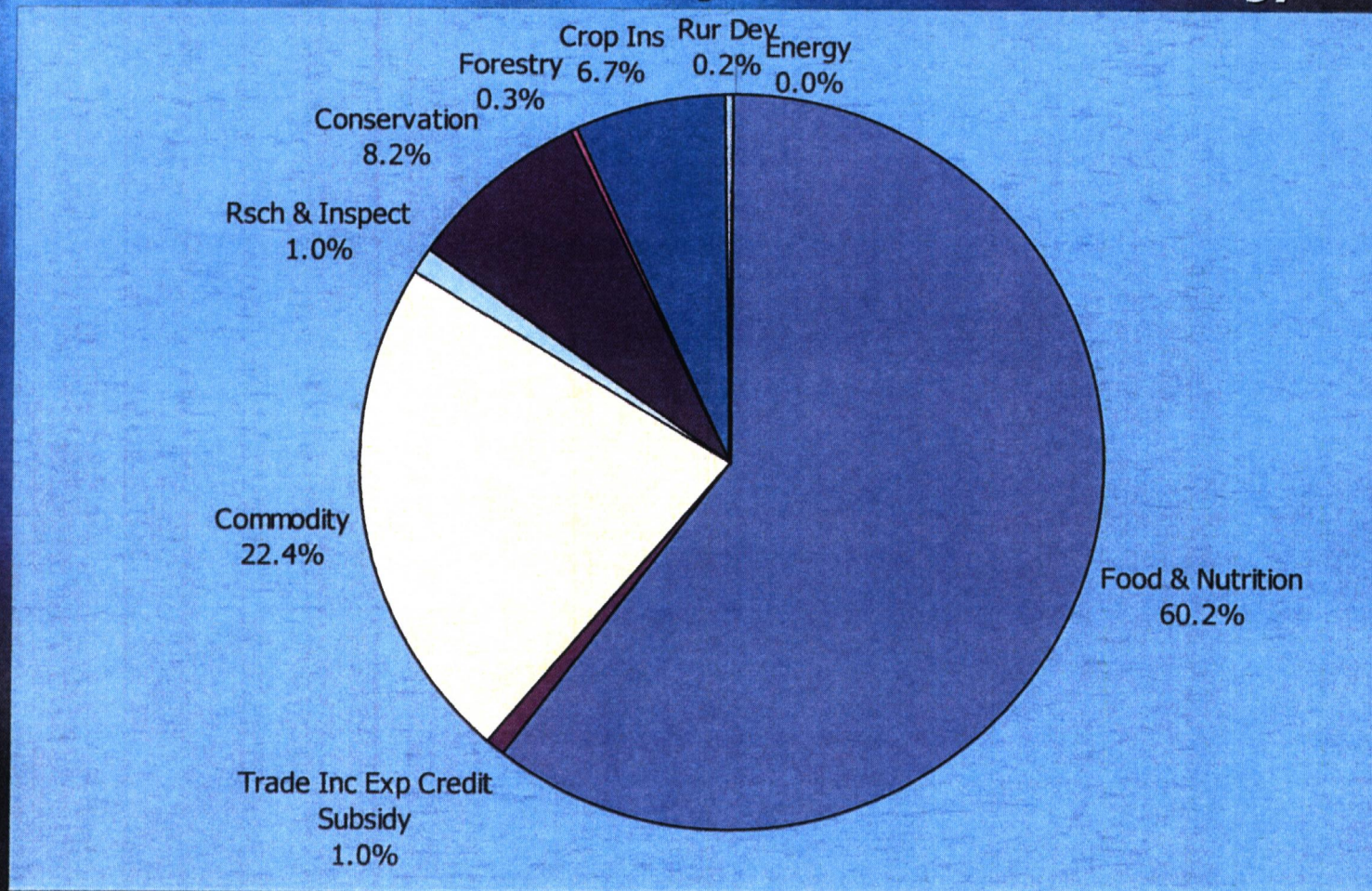
Reminder: Projected surpluses that facilitated \$79 Billion in extra funding over 10 years for the 2002 farm bill have disappeared



The House Ag Committee Has Responsibility for More than Farm Programs.

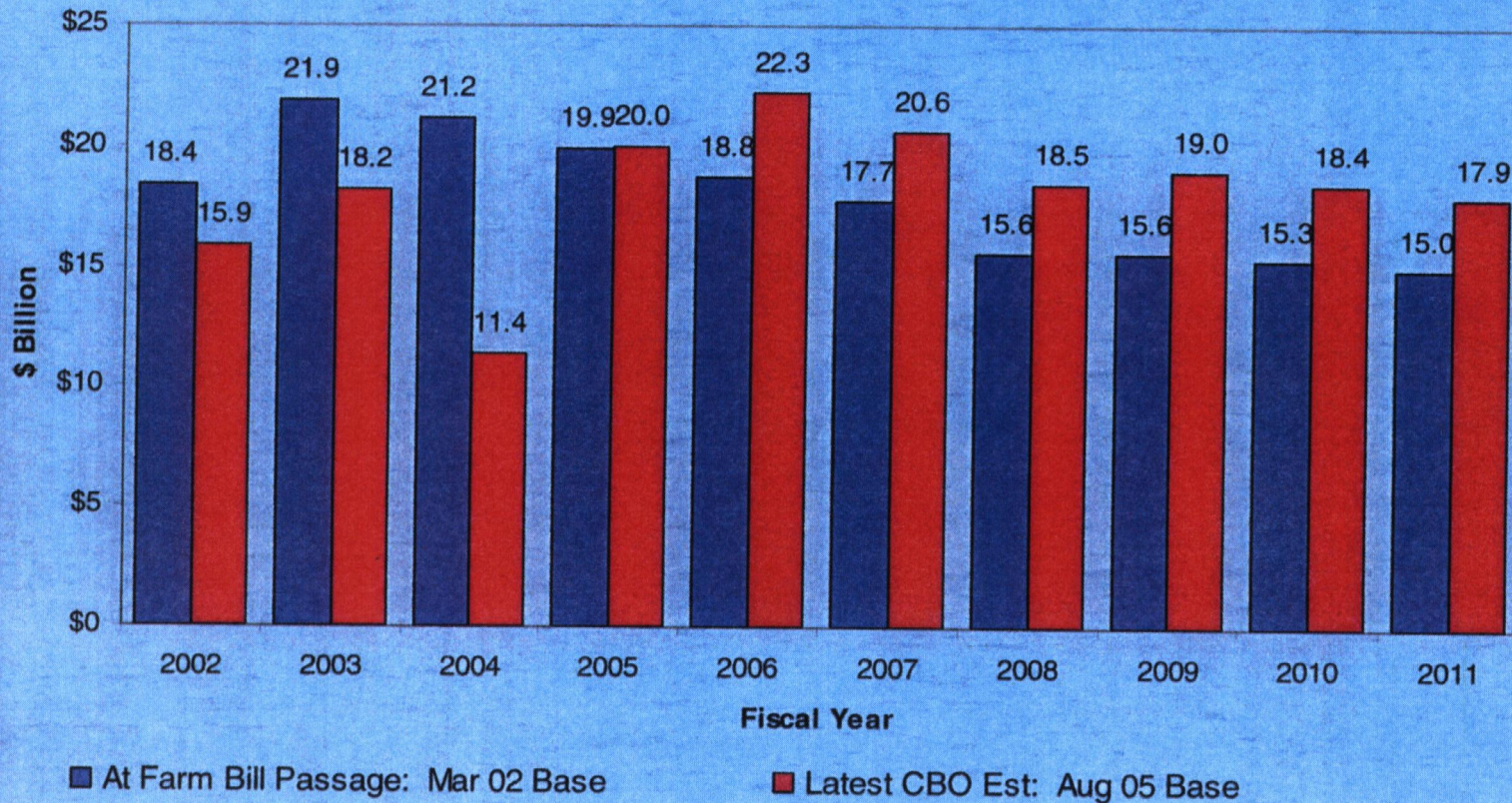
Projected Outlays for Programs Under House AG Jurisdiction
of **FY 2006 – 2015: \$605 Billion**

CBO March 2005 Baseline Adjusted for CAFTA & Energy Acts



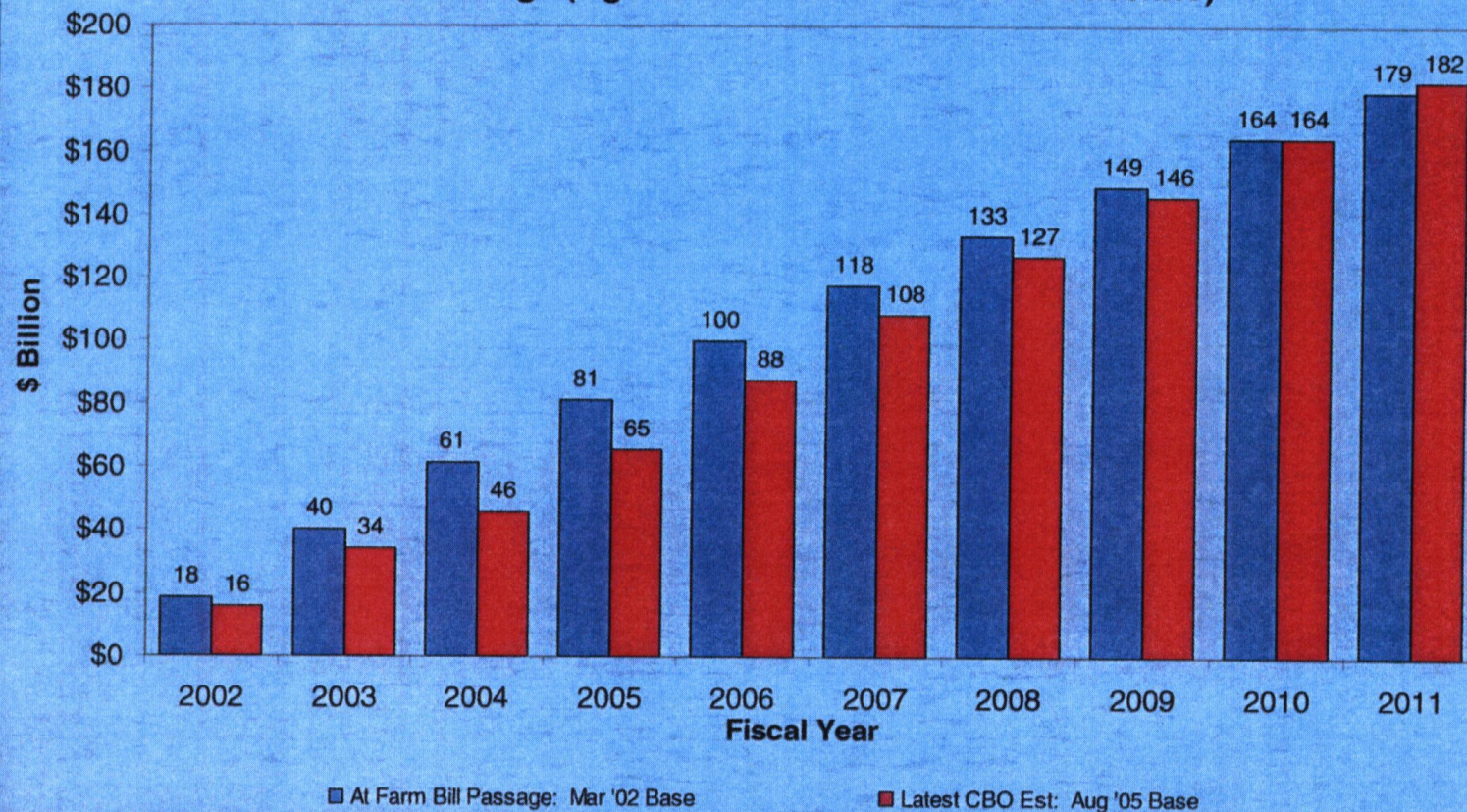
CCC Outlays for the first 3 years of the 2002 farm bill were \$15 billion Lower than CBO Projected When the Farm Bill Was Passed. ("Savings" cannot be used to offset cost increases elsewhere)

Total CCC Outlays: At Farm Bill Passage and Current Estimate



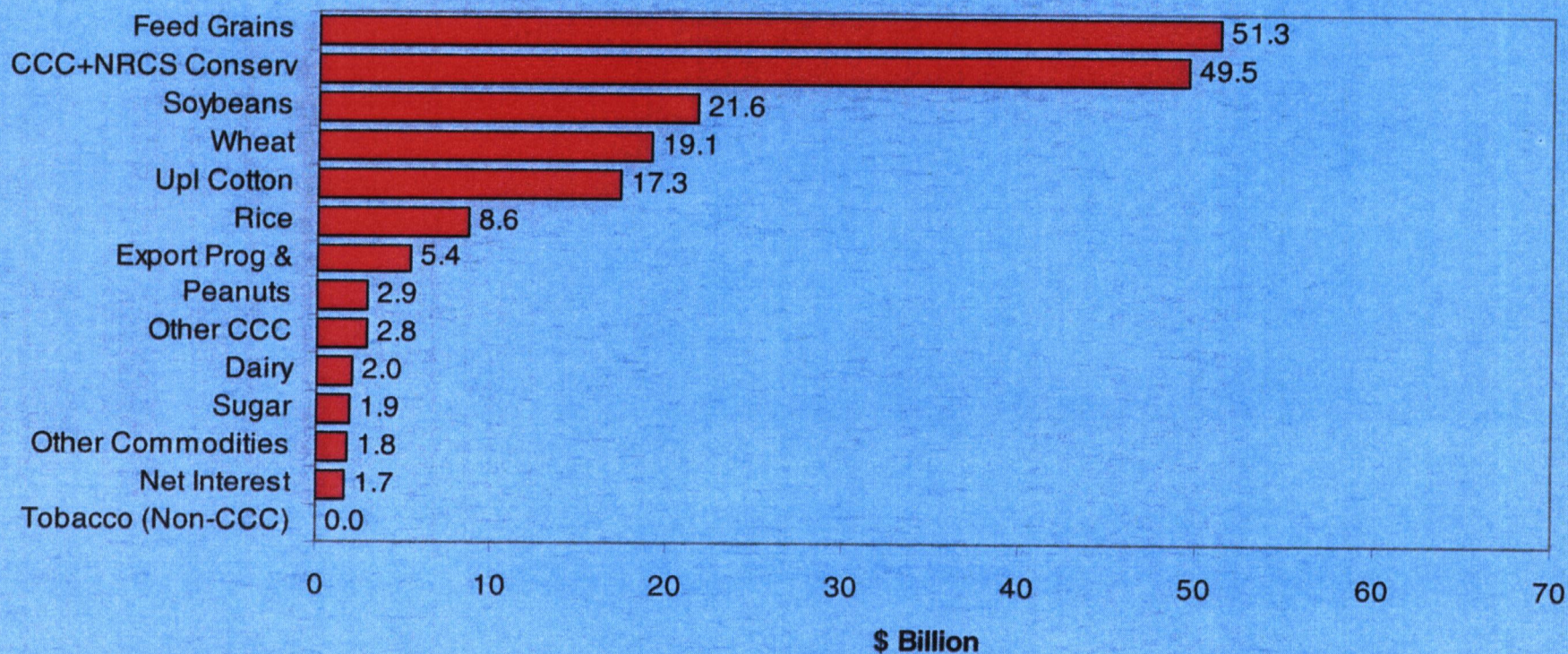
But the Current CBO Baseline Shows Higher Cumulative CCC Spending by FY 2011 than Farm Bill Projections

**CBO's Total CCC Costs (& NRCS Conservation), FY 2002 - 2011:
Cumulative by FY. Latest CBO Estimate vs. Most Likely Estimate at Farm
Bill Passage (Against the March 2002 CBO Baseline)**



CCC Spending by Crop or Program Area

CCC (+NRCS Conservation) Outlays, CBO 10-Year Projections
FY 06-15 = \$185.9 Billion
CBO Aug 05 Baseline



CBO's Baseline and CBO Scoring Determines the Funds Available and the Costs or Savings from Changing Ag Committee Programs

- The Baseline is simply a projection of future spending under the assumption that current programs and policies continue indefinitely.
- Potential Adjustments affecting the CBO March, 2007 baseline that will be used for the 2007 farm bill:
 - New Legislation (FY 2006 reconciliation, appropriations, trade agreements)
 - New funding for some programs stops before or in 2007
 - New Perspectives on Market Conditions.
 - Sometimes CBO changes the treatment of costs of different programs
- Policy proposals that save money may become more attractive than they otherwise would be—especially if some believe that the CBO scoring is “wrong”.
- “Bad” policy may result if policies are designed to capture quirks in CBO baselines or estimating assumptions.
- New programs are harder for CBO to score accurately (No experience to draw on.)

Comments on Available Funding Levels for the 2007 Farm Bill

- Even Maintaining Current Funding Levels For Agriculture May be Difficult
 - Reconciliation and Residual Payment Envy from Extra 2002 farm bill funding. (Forgetting that funds were to avoid year-by-year ad hoc emergency assistance.)
 - Ag Committee Funding taken by Appropriators (see below)
- Significant Probability of Doing Budget Reconciliation in 2007 (and incorporating new WTO provisions, too(?)).

What is Budget Reconciliation?

- Budget Reconciliation for Ag & Most Other committees: share the pain of reducing the deficit by all changing their mandatory programs at once to reduce spending.
- Budget Reconciliation is initiated by including reconciliation instructions in the annual Congressional Budget Resolution.
- The FY 2006 Budget Resolution establishes a sense of Congress that reconciliation be done every two years.
- Some Prior (and Current) Budget Reconciliations Affecting Agriculture: 2005, 1995, 1993, 1990, 1989, 1987
- The 1990 and 1995 farm bills were done in tandem with budget reconciliation.

FY 2006 Budget Reconciliation

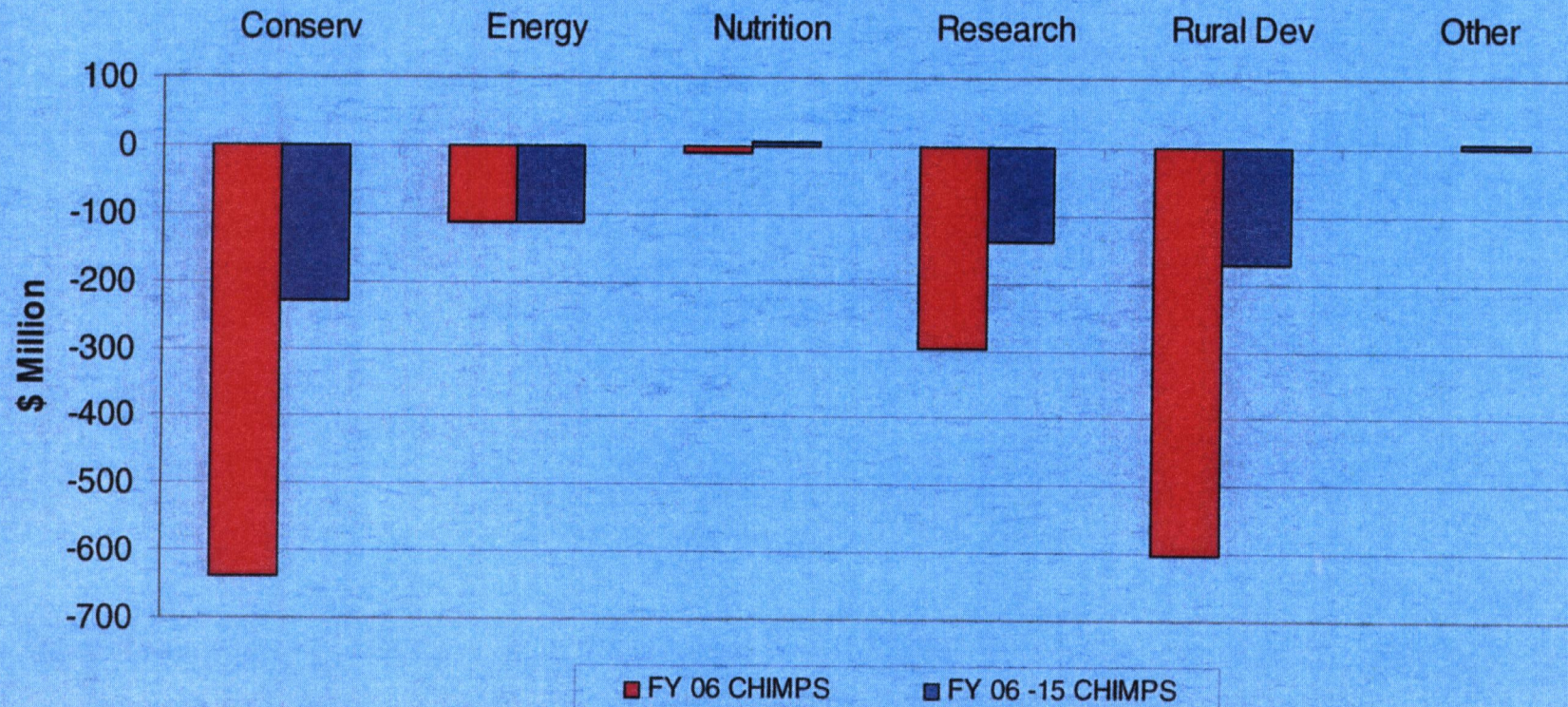
- FY 2006 Instructions: Reduce FY 06-10 Ag Spending by \$3 billion (1% of Spending under the jurisdiction of the House Ag Committee).
- Final Conference Reduction for Ag: \$2.7 billion.
- Conference Bill passed the House, passed the Senate with modifications, is awaiting further action in February
- Much time spent in the House constructing reductions to restore the baseline for FY 2011 and after (while reauthorizing as few programs as possible to maintain as level a playing field as possible for the 2007 farm bill.)
- A difficult process that may reduce the "enthusiasm" for frequent reconciliations.

Available funding and funding tradeoffs for the 2007 Farm Bill:

- Various Groups want additional funding from the likely smaller pie for:
 - Fruits and Vegetables
 - Conservation
 - Rural Development
 - Crop Insurance
 - Standing disaster assistance (Budgeteers have increasingly wanted to tighten up on "emergency spending—requiring offsets from existing programs).
- Concerns with the large amount of program funding spent on conservation technical assistance.
- Pay Limits will be an issue: Pay limits reduce spending either through limiting benefits to larger producers or by limiting eligibility for payments.
- If appropriators continue to take funding from ag committee programs to fund their programs (ag or otherwise), how much scarce ag committee funding should be put into rural development, research, energy, selected Conservation, and other programs that may never be implemented or implemented at dramatically lower levels than intended?

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(Budget Authority: \$ Million)



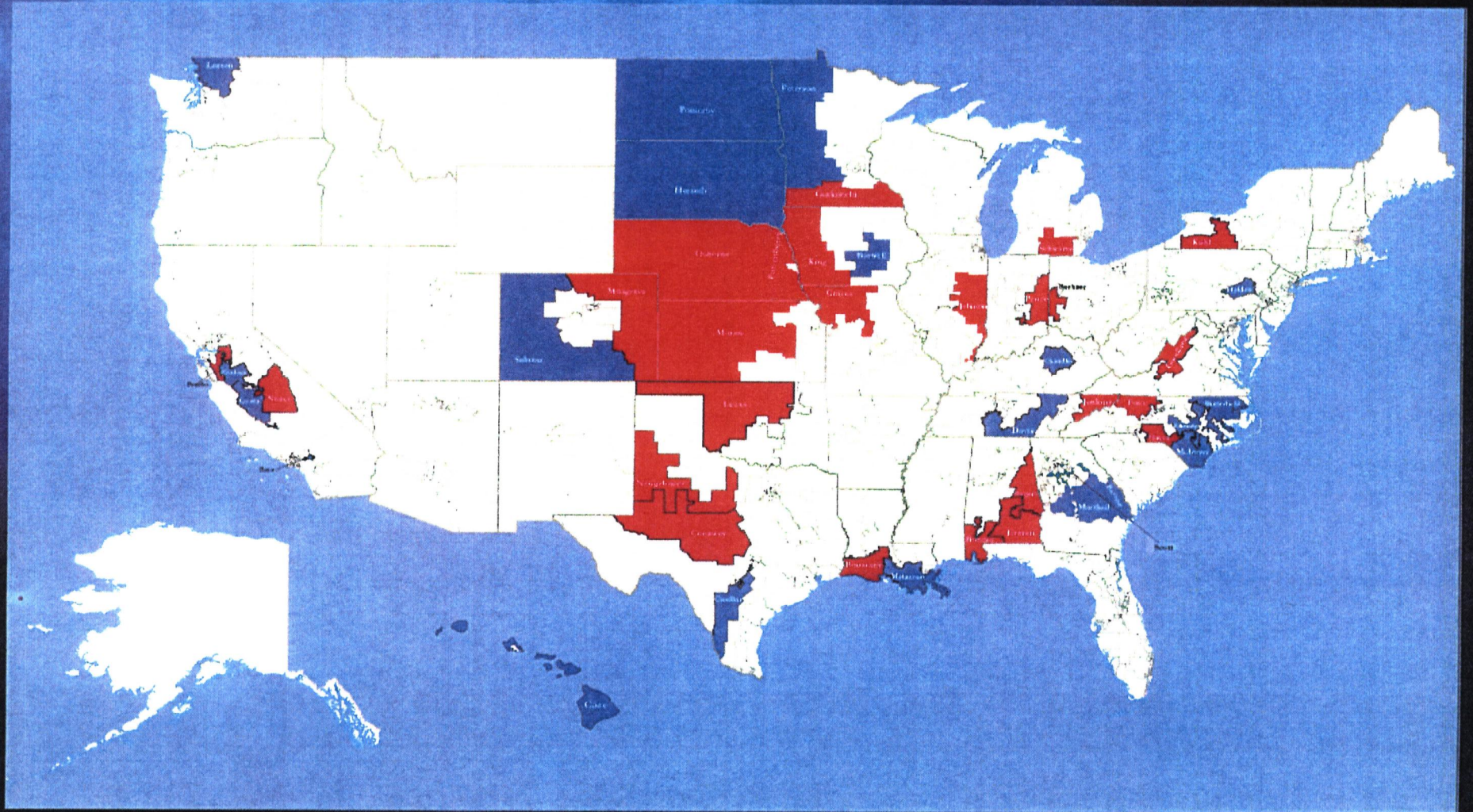
The 2007 Farm Bill and WTO

- ❑ Ag Committee will spend significant time in trying to meet WTO requirements—as was done for the 2002 farm bill.
- ❑ “Constructive ambiguity” that allows WTO deals to be signed but that may be interpreted in WTO challenges differently than we thought, is a major problem in writing legislation.
- ❑ HAC will write the 2007 farm bill to WTO provisions adopted by that time—not to pending proposals.
- ❑ How to deal with programs whose costs vary significantly from year-to-year? (WTO Circuit Breaker)
- ❑ Remember that WTO AMS Calculations can be different than Government Cost Calculations (e.g. Sugar and dairy price supports that include consumer costs).
- ❑ Commodity Trade-offs that used to be solely domestic political issues now may be WTO issues
 - ❑ Unique provisions for one commodity
 - ❑ Different countries are affected when one crop is favored over another

Closing Comments

- ❑ As always, impacts of program changes on land values is a major concern. But impacts of programs on cash rents is gaining more visibility.
- ❑ Because of potential ad hoc emergency assistance in years of low prices, some type of automatic counter-cyclical safety net is desirable (what we learned from the 1996 act).
- ❑ Bottom Line: What are the transition costs of getting from here to there and how can they be minimized.

Districts of Current Members of the House Agriculture Committee
(Does not yet include Rep. Schmidt of Ohio's 2nd District)



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Craig Jagger

Biographical Sketch

Craig Jagger has been the Chief Economist for the House Committee on Agriculture since February, 2001. The 2007 farm bill will be his fourth farm bill. He was in his current position for the 2002 farm bill, at the Congressional Budget Office for the 1996 farm bill, and at USDA's Farm Service Agency (then ASCS) for the 1990 farm bill. He also has worked for the U. S. General Accounting Office and USDA's Economic Research Service.

Craig was raised on the Kansas family farm that his great-grandparents homesteaded 140 years ago. He started his formal education at a two-room country school a mile and a half from the farm. His bachelors and masters' degrees are from Kansas State University and his Ph.D. is from Cornell University.

Craig is married to Joy Harwood, Deputy Director for Market Analysis at USDA's Economic Research Service. For eight years, they co-taught a popular evening class on commodity programs at the USDA Graduate School.

Joy and Craig have two adopted daughters from China—Margaret who is 5 and 1/2 years old and Caroline who is 18 months old.